



中央存款保險公司  
Central Deposit Insurance Corporation

# Financial Fraud Cases in Taiwan

Iris M.F. Chiu  
Central Deposit Insurance Corporation  
November 18, 2004

# Outline



I. Overview

II. Case A : T Bank

III. Case B : S Bank

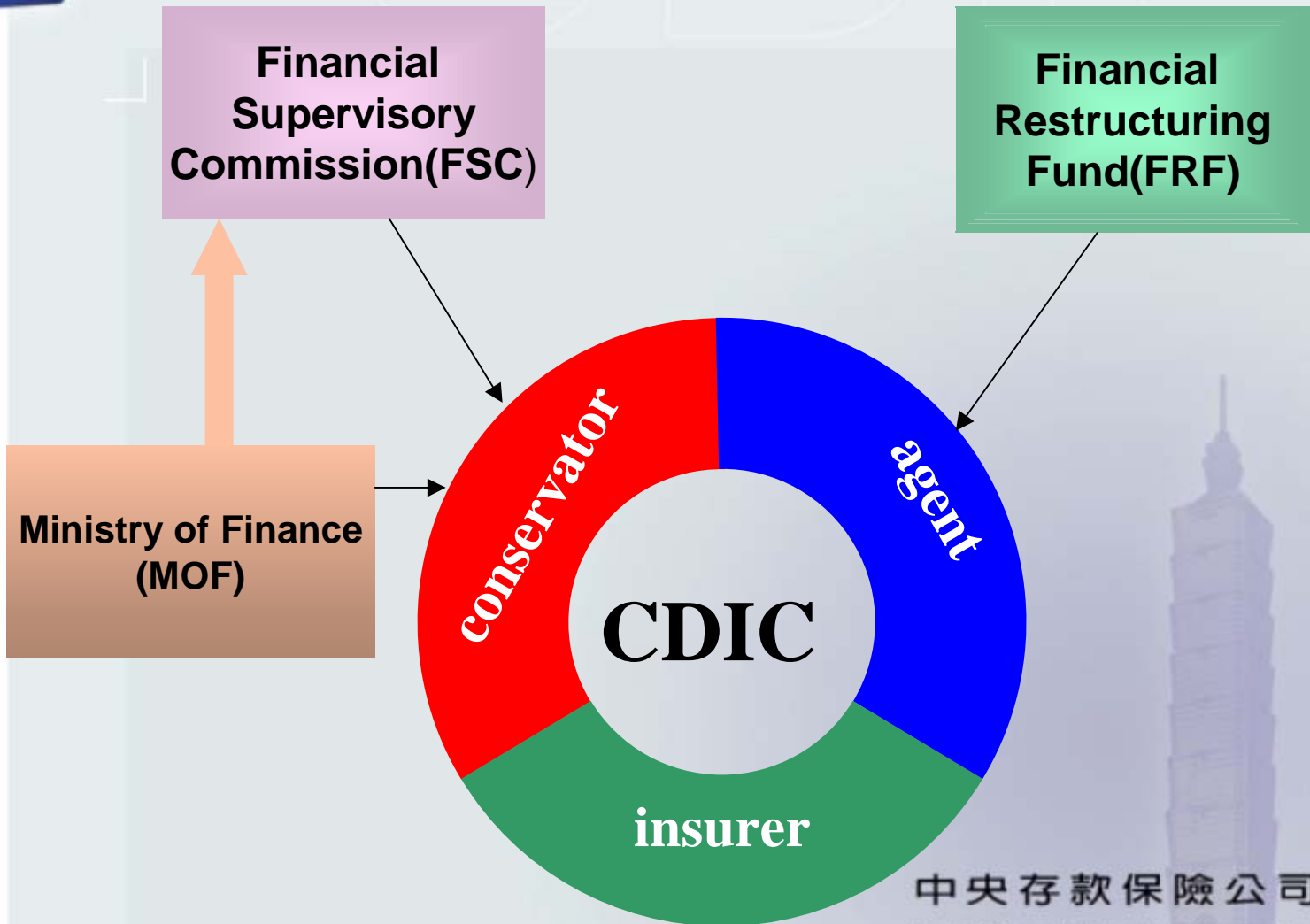
IV. Conclusions

# Why Present These Two Cases ?



- The Senior Officials Involved in the Frauds
- The Record High Amount of Deposits Withdrawn in Bank Runs
- The Extreme Difficulty and Complication in Resolving These Banks

# The Role of the CDIC





## Case A: Background of T Bank

- The Fraud Occurred in November, 1998
- A Former Local Business Bank Converted Into a Commercial Bank in 1998
- Capital Issued : NT\$15 billion(US\$450 million)
- A Company Listed on the Taiwan Stock Exchange Corporation ("TSEC")
- Deposit Amounts : NT\$207 billion(US\$6.3 billion)
- No. of Branches: 76

## Case A: Fraudulent Activities



- The Chairman Controlled the Board of Directors Through Dummy Directors
- Extended Illegal Loans to Dummy Companies
- Purchased the Stocks of Companies Substantially Owned by the Chairman to Manipulate the Stock Price
- Illegally Acquired NT\$11billion (US\$330 million) From the Bank



## Case A: CDIC As the Conservator

- Panic Runs Occurred , CDIC Was Appointed As a Conservator
- Resolved the Crises of the Runs
- Improved the Risk Management and the Operations of the Bank
- Evaluated the Assets and Liabilities of the Bank
- Filed Litigations Against Culpable Parties
- A New Board of Directors was Organized



# Case A : Actions Against the Responsible Parties



- The Competent Authority Referred the Chairman to Prosecutors.
- The Other 40 Suspects were Also Referred to Prosecutors
- CDIC Assisted the Prosecutors and the Court to Uncover Evidence
- Guilty Parties were Prosecuted and Finally Sentenced to Imprisonment



# Case A : Properties Investigation and Civil Claims



- Accessed Property Information From Government Agencies
- Traced the Money Obtained From the Commission of the Crimes
- Laid Provisional Seizures on the Assets and Properties of Parties Responsible
- Claimed Against the Chairman and Related Parties



# Case B

**S BANK**

## Case B : S Bank



- The Fraud Occurred in April, 2000
- Established in 1992
- Capital Issued:  
NT\$15billion(US\$450million)
- A Company Listed on the Taiwan Stock Exchange Corporation ("TSEC")
- Deposit Amounts: NT\$195 billion(US\$5.9 billion)
- No. of Branches: 45

# Fraudulent Activities



- Due to the Influence of Senior Officials , the Bank Repeatedly Extended Irregular and Excessive Loans to a Taiwanese Company (the P Group) and the Group's Related Entities
- The Illegal Loans Also Extended to the Dummy Entities of the P Group
- Wrongdoing Uncovered by Financial Examinations



## Case B : CDIC As the Conservator

- Resolved the Liquidity Problem and the Crises of the Runs
- Improved the Risk Management and the Operations of the Bank
- Attempted to Reduce Capital and to Recapitalize
- Purchase and Assumption (P&A) Proposal Not As Yet Successful



## Case B : CDIC As Agent of the Restructuring Fund

- S Bank to Be Disposed of Under the Financial Restructuring Fund
- Sold Non-Performing Loans (NPL)
- A Bid Session for the Good bank Will Be Held in December



## Case B : Pursuit of Criminal Liability

- Pursued Criminal Liability Against Responsible Parties
  1. The Officials and Staff of the S Bank
  2. The Chairman and Staff of the P Group
- The Defendants of the P Group Case Were Sentenced to Imprisonment and Fined but Have Appealed
- CDIC Held Meetings to Deliberate the Criminal Liability of Suspect Parties and Referred Them to Prosecutors





## Case B : Accountability Claims I

- Accessed Property Information from Government Agencies
- Laid Provisional Seizures on the Assets and Properties of Parties Responsible
- Initiated Damage-claims Against the Chairmen and Related Parties

## Case B : Accountability Claims II



- 1) A Culpable Staff Member Mortgaged His Assets to a Third Party Just Before the Assets Were Frozen by the S Bank
- 2) The Bank Successfully Claimed for the Cancellation of Mortgage Registration

# Lessons



- Internal Control Was Not Efficient
- Lack of Corporate Governance
- Financial Supervisor Failed to Report the Frauds Promptly
- The Judicial Procedures Did Not Promptly and Adequately Punish the Guilty Parties

# What Has Been Done



- CDIC Established an on line Monitoring System
- Raised the Maximum Punishment for Financial Crimes
- Promoted Corporate Governance of Financial Institutions
- The FSC has been Given the Authority to Investigate Financial Crimes
- CDIC has Prepared a Draft Revision of the Deposit Insurance Act to Give CDIC the Power of Special Examination

# Thank You



中央存款保險公司  
Central Deposit Insurance Corporation